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SUBJECT: GOB Forum Warns Against Investing in Belarus

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¶1. Summary: On November 17 Econoff and Econasst attended an investment conference in Mogilev, eastern Belarus, hosted by local authorities. In traditional fashion, about half the speakers called for foreign and domestic investment to Mogilev. However, the rest of the speakers presented reasons not to invest in Belarus. One speaker listed GOB-created barriers to investment, another gave problems faced by small and medium enterprises, and a third stated Belarus misuses the pittance it does attract. Most interestingly, a Russian diplomat spoke about Belarus' lack of rule of law and how that is blocking the Belarusian-Russian union state. Surprisingly, local officials seemed to agree with this criticism. But maybe this is not so surprising, given the sentiments President Lukashenko expressed to the media on November 23, "Foreign investors are like cockroaches, crawling into every hole and crack." End summary.

¶2. On November 17, Mogilev city authorities held an investment conference to attract foreign and domestic investment to their city and region. Around 300 attended, including delegations from Klaipeda, Lithuania and Pacheon, South Korea.

What is Investment?

¶3. The conference began with an event where Emboffs spoke with several Mogilev region businesses that are seeking "investment." The vast majority of those firms are fully or partially state-owned. With few exceptions (mainly 100% private companies), when these companies ask for "investment," they actually mean loans. Most claimed they do not have authority to sell shares in their company to attract foreign capital. Instead, they expect foreigners to give them money for modernization, or even just to cover salaries. In exchange they offered to pay the "investment" back, either in cash or in goods.

"Political Stability + Strong Government = Investment"

¶4. The first several speakers, from the city council, Mogilev Free Economic Zone (FEZ), and Mogilev Technology Park, all spoke about the advantages in investing in Belarus. The representative of the city council stated that political stability and Lukashenko's strong form of governing create an ideal investment climate. He stressed Mogilev's geographic position, "in the very center of Europe," including its location along the main highway and rail link from the EU to Moscow. Mogilev Oblast has an unemployment rate of 1.8%, and an average salary of USD 235 per month. Mogilev most desires foreign investment for its chemical industries, which represent 34% of production. Other major enterprises produce fibers, textiles and elevators. State owned textile firm Mogoteks is the regions largest exporter. In 2005 the oblast expects to export USD 200 million in goods to Russia, with much smaller amounts to other countries. Also in 2005 the regional government for the first time sold a plot of land, and it privatized 25 firms, earning USD two million. The Free Zone representative added that

Lukashenko is unhappy with Belarus' free economic zones, and has ordered them to attract "high-tech" companies. Unfortunately, so far this year the Mogilev FEZ has not attracted any foreign investment.

¶5. Also speaking in favor of investing in Belarus was Gennadiy Melnikov, general director of cell phone company Velcom. Melnikov claimed Belarus is a fantastic place to invest, and that the GOB has provided his company with many benefits. He also expounded on the value of agricultural development, and announced Velcom would provide low cost cell phone service to rural villagers. [Comment: Assisting rural villages is a main plank in Lukashenko's platform. Melnikov unsurprisingly did not mention that in October 2003 the GOB expropriated without compensation a 20% share of Velcom from Cypriot/Syrian founder SB Telecomm, giving the GOB a 51% share in the company. Nor did he mention that a week later the BKGB arrested his predecessor and six other senior Velcom officials and deported them. Melnikov also failed to state that this year the GOB created a 100% state-owned cell phone provider to undercut Velcom. End comment.]

Mogilev Looks Shabby in Comparison

¶6. The mayors of Klaipeda, Lithuania and Pacheon, South Korea both gave highly professional presentations that made Mogilev look all the shabbier in comparison. The Klaipeda mayor spoke about the hundreds of millions of Euros his city has attracted in recent years, much of it related to the city's thriving port. Belarusian

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companies invested Litas 2.35 million [USD 800,000] in Klaipeda in 2005, making Belarus one of the smaller investors in the city. Pacheon's mayor showed a very slick film on his city and discussed the value of decentralizing economies.

Why Not to Invest in Belarus

¶7. The next series of speakers all gave valid reasons not to invest in Belarus. Ivan Ivanov, local representative for the International Finance Corporation, praised Belarus for its open economy (exports make up a high share of GDP), political stability, good infrastructure and skilled workers. However, he explained that foreign investors look at more than just these factors. Belarus scares away investment by changing its laws far too often, by having a very complicated tax code, and because the GOB frequently differentiates between "our" and "other" companies, discriminating against those that are not state-owned or are foreign. While acknowledging that some in the GOB are starting to think about such issues, Ivanov argued the GOB must open a dialogue with businesspeople.

¶8. A representative of the state-run Belarusian Chamber of Commerce and Industry provided comparative statistics of foreign investment around the world to show that Belarus fares very poorly, even compared to other CIS states. Even though the GOB claims Belarus attracted USD 647 million in foreign investment in 2003, he said this is wrong, that Belarus really only attracted USD 171 million that year. He further argued that Belarus squanders the investment it does attract, and that all investment must be controlled by the GOB so it can be used effectively.

¶9. Evgeniy Novozhilov, Trade Counselor at the Russian Embassy in Minsk, was supposed to talk about benefits of the Belarusian-Russian union state for investment. Instead, he said Belarus has created three sets of problems that hurt the union state and investment: 1) Russia facilitates the free market while Belarus does the opposite; 2) Russia is ruled by laws while Belarus is ruled by presidential decrees; and 3) Minsk has largely refused to work with Russia to align the two countries' laws. Even when the laws are the same, Belarus issues a great many rules and regulations that ensure these laws are applied differently in Belarus. [See septel for a more detailed report of his speech.]

¶10. Last, Anatoly Zhigalov of the firm Promleasing outlined the problems for small and medium enterprises (SME) in Belarus. He explained: SMEs have a hard time attracting investments and credits; are crippled by the lack of free press, which makes it hard for them to find accurate market information and business partners; that the "conservatism" of Belarus' large state-owned companies makes them unwilling to work with private SMEs; and that Belarus in general has a poor support infrastructure for SMEs.

Comment

¶11. This conference was organized by local GOB officials in Mogilev. While they win points for honesty and transparency, it was very odd to attend an investment conference that provided more reasons not to invest than to do so. More strangely, the city and oblast officials all smiled and nodded their heads in agreement as speaker after speaker gave reasons not to invest in Belarus. The only sign of discontent came from the Pacheon mayor's GOB-provided translator (likely BKGB), who stopped translating as the criticism continued. Econoff left with the strong feeling that local officials were "checking a box" by hosting this conference, but in reality know most of the problems they face are caused by their own authorities in Minsk. Lukashenko's public comments, such as calling foreign investors "cockroaches," demonstrate the regime's true feelings toward investment. However, the local officials were delighted that Embassy representatives attended, and even displayed an American flag on stage.

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